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NATIONAL INTELLIGENCE DAILY CABLE

Friday 3 February 1978 CG NIDC 78/028C

**NATIONAL SECURITY INFORMATION**

Unauthorized Disclosure Subject to Criminal Sanctions

State Dept. review completed

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National Intelligence Daily Cable for Friday, 3 February 1978.

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The NID Cable is for the purpose of informing senior US officials.

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#### CHINA: Possible Shift in Policy

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*[redacted] //The Chinese Ambassador in Islamabad has privately criticized Pakistan's attempts to obtain a nuclear reprocessing plant from France. This may be the first hint that China would be willing to cooperate with the US--at least tacitly--in discouraging further nuclear proliferation. The Chinese could hope that by cooperating they would gain access to Western nuclear technology. It is unclear whether the Ambassador's comments signal a definite change in Chinese policy.//*

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[REDACTED] //The Chinese Ambassador told the US Ambassador last week that there is no practical purpose in Pakistan's acquiring a nuclear spent fuel reprocessing plant and described it as costly and unnecessary. Such a plant would substantially increase Pakistan's ability to develop nuclear explosives.//

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[REDACTED] //In the past, Pakistan looked to China as a source of technical and political support for acquiring nuclear technology. China led the Pakistanis to believe it would help them with their nuclear programs if other sources of supply became unavailable. There is, however, no indication that China has actually given Pakistan any assistance.//

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[REDACTED] //Because of its repeated public denunciations of the "superpower nuclear monopoly" and because of its own nuclear program, China would find it difficult openly to oppose nuclear development in the Third World, particularly in countries such as Pakistan with which it has close relations.//

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[REDACTED] //The Chinese may hope that private statements espousing nonproliferation will facilitate their access to Western commercial nuclear technology, which they have been seeking. The Chinese Ambassador's remarks may thus represent an attempt to allay Western fears--based on past Chinese statements that Peking might help other countries in the Third World to acquire nuclear weapons. [REDACTED]

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[REDACTED]

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## PERU: The President Hangs On

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*[redacted] //Peruvian President Morales Bermudez, who was rumored last week to be on the verge of removal because of rising criticism of his handling of the economy, has received a vote of confidence from the military. The President's mandatory retirement from the Army this week increases his vulnerability, however, and he could still be ousted in the next few months if Peru's dismal economic outlook fails to improve.//*

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*[redacted] //Morales Bermudez is keenly aware of an erosion of military confidence in the economic policies that have placed Peru at the mercy of foreign creditors. He reportedly had threatened to resign if he did not receive pledges of support from the country's highest ranking military officers. He received their backing this week. He obtained similar support during another difficult period last April, when the military junta asked him to remain in office until the projected return to constitutional rule in 1980.//*

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[ ] The Army's unwillingness to remove Morales Bermudez at this juncture may be due more to the lack of an acceptable replacement than to any remaining confidence in his ability to steer the country through the economic morass. Next in line for the presidency in the military hierarchy--which has been scrupulously observed in recent top-level government changes--is the new prime minister, General Oscar Molina Pallochua. Molina is the butt of many jokes because of his obesity; his lack of military bearing is a source of embarrassment to his fellow officers.

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[ ] There are lower ranking but more credible rivals for power, such as President of the Joint Command and Army Chief of Staff Richter, Interior Minister Cisneros, and Industry Minister Ibanez O'Brien--who thus far has survived an alleged attempt by Morales Bermudez to remove him from the cabinet. All of these men have all had differences with the President, but each apparently lacks the support necessary at this time to leapfrog his way into the presidency.

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[ ] //Morales Bermudez' most pressing need is to demonstrate convincingly that his government has a coherent plan to cope with the country's external debt. A Peruvian mission now in the US is seeking either a restructuring of some of that debt or a new balance-of-payments loan of some \$150 million; this would be part of Peru's worldwide effort to raise \$250 million.//

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[ ] //Although the President has been given a reprieve, his problems are far from over. His retirement from the military this week, together with that of all of his academy classmates, has badly shrunk his political base within the military. This may be particularly important in the coming months as the government's austerity program continues to squeeze Peru's already beleaguered wage-earners, further increasing the risks of labor disorders and civil strife.//

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INDONESIA: Situation Report

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[REDACTED] The government apparently does not intend to lift the ban on newspapers soon. A high-level security official even warned the foreign press this week to temper its coverage of opposition groups or face possible closure of local offices. The new, harder line may be due to the influence of Ali Murtopo, President Suharto's political troubleshooter. Murtopo is said to want a longer ban to avoid further damage to the President's reputation that could stem from recently publicized allegations of corruption.

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[REDACTED] At the same time, Suharto is trying to generate more support in other quarters for his anticipated reelection next month. By announcing his intention to refurbish the grave of former President Sukarno, he is wooing old-guard supporters of Sukarno who still wield considerable influence in parts of Java.

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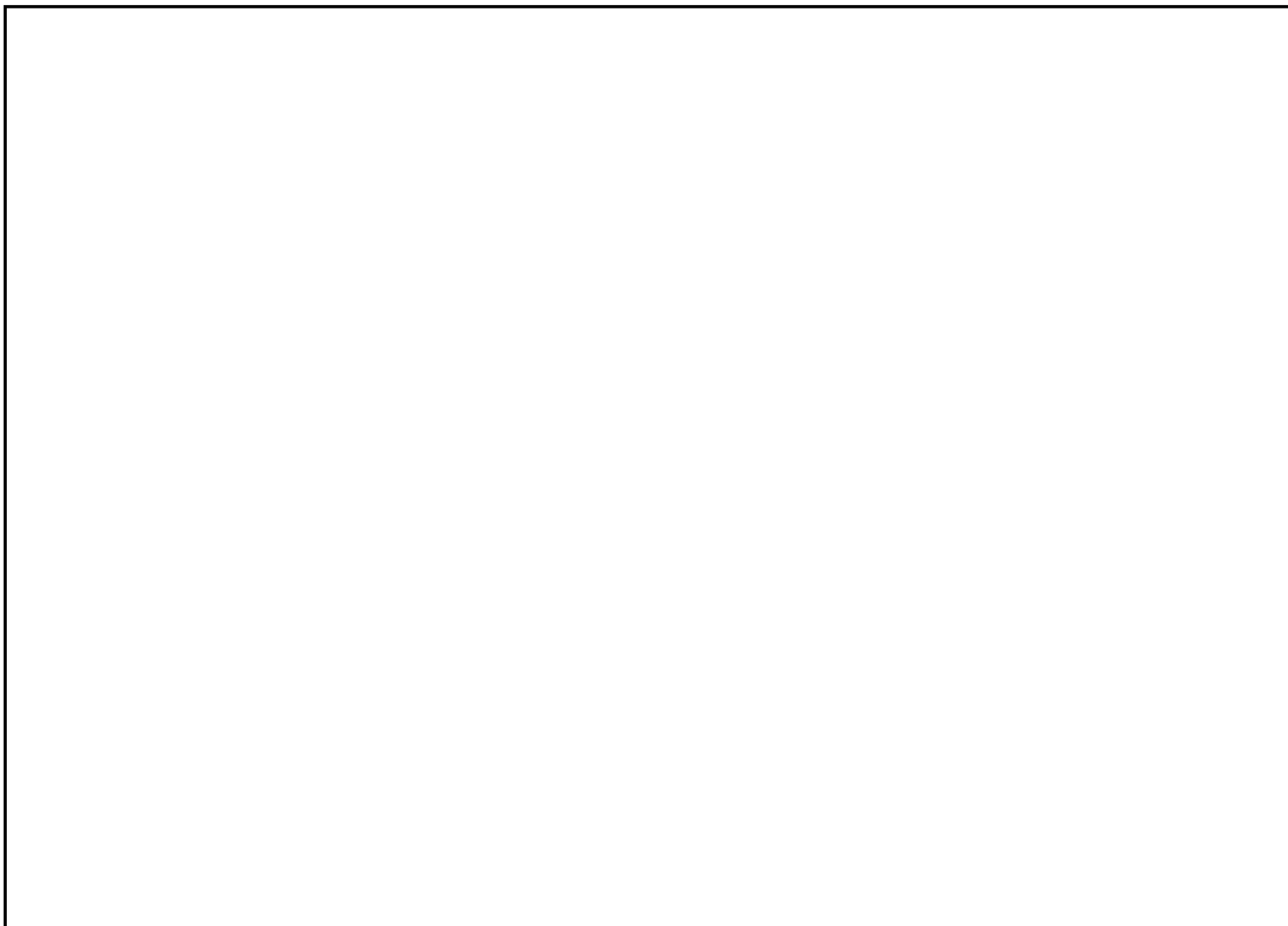
[ ] The Army continues publicly to demonstrate its loyalty to Suharto. At the installation of the Army's new Chief of Staff this week many major Army leaders appeared in an apparent show of support for the President--including two men whom Suharto had dismissed but who still have a following within the Army.

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# BRIEFS

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France-Chad

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[ ] A French official informed the US Embassy in Paris yesterday that France does not intend to respond to Chadian President Malloum's request for French combat forces. France

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will, however, deliver additional weapons and guarantee French advisory assistance to Chadian ground combat units. The French response probably will lead Chad to increase its efforts to persuade the US to provide aid. [REDACTED]

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#### Yugoslavia

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[REDACTED] Changes announced yesterday in Yugoslavia's electoral system appear to be only a public relations gesture, even though they are being touted as significant reforms. The party's ability to ensure that only reliable officials are chosen in the legislative elections this spring will remain intact. The regime is probably making the exaggerated claims in order to answer Western criticism of its human rights record.

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[REDACTED] The changes purport to ensure that higher authorities will not interfere in the voting process. In practice, however, nominations will still be monitored by local party officials. In a few cases, the regime may permit or even encourage support for nonconformist candidates in order to give some credence to the "reforms."

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[REDACTED] Four years ago, Yugoslavia abandoned its old system of direct elections to the federal and republic legislatures. Under a complex mechanism called the "delegate system," the average Yugoslav votes only for a deputy in a local assembly. The rest of the election process is left to higher "delegate" assemblies. The system has been heavily criticized because these assemblies routinely choose only party members for higher posts. [REDACTED]

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#### West Germany

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[REDACTED] //West German Chancellor Schmidt met nearly all day yesterday with government ministers and political leaders in an attempt to resolve the cabinet crisis created when Defense Minister Leber submitted his resignation on Wednesday. The results of those deliberations are expected to be announced today.//

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[REDACTED] //Although Schmidt may be attempting to consolidate support to retain Leber, most observers believe he will shuffle his cabinet now, rather than later, because of recent pressure

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from the opposition to remove Leber. Finance Minister Hans Apel appears to be the most likely successor to the Defense Ministry post.//

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[redacted] //Other changes in the cabinet could occur as Schmidt revamps his government preparatory to four important state elections later this year. [redacted]

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